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No. 98-290

IN THE

Supreme Court of the United States

OCTOBER TERM, 1998

MARLBORO FOOTWORKS, LTD., LAURENCE D. KOPLAN, STEVEN GOLDBERG,

Petitioners

v.

AEROGROUP INTERNATIONAL, INC.,

Respondent

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

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PETITIONERS' REPLY BRIEF

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LIST OF PARTIES

All parties appear in the caption of the case. Petitioner, Marlboro Footworks Ltd., has no parent or subsidiaries.

TABLE OF CONTENTS

LIST OF PARTIES i

TABLE OF AUTHORITIES iii

I. SUMMARY OF THE REPLY ARGUMENT 1

II. REPLY ARGUMENT 3

A. *Luft* Does Not Provide an Alternative Ground to Invoke the Extraterritorial Application of the Lanham Act 3

B. The Error of the Courts below Constitutes Legal Error Under Second Circuit Law 5

1. The Federal Circuit Erred as a Matter of Law in Determining the Issue of Substantial Effect on Commerce .. 6

2. Legal Error Occurred by the Failure to Find No Conflict with Foreign Law . 7

C. The Intent of the Lanham Act Requires That at Least Some of the Effects Considered Include Harms Prohibited under the Act ... 8

III. CONCLUSION 10

TABLE OF AUTHORITIES

Cases Cited

Aerogroup Int'l, Ltd. v. Marlboro Footworks,
1998 U.S. App. LEXIS 7733 (2d Cir. 1998) 2,3,7,8

Atlantic Richfield Co. v. Arco Globus Int'l Co., Inc.,
47 U.S.P.Q. 2d 1529 (2d Cir. 1998) 4,5

Fogel v. Chestnutt,
668 F.2d 100, (2d Cir. 1981) 9

Fundamental Too, Ltd. v. Gemmy Indus. Corp.,
42 U.S.P.Q. 2d 1348 (2d Cir. 1996), ... 4,6

George W. Luft Co., Inc., v. Zande Cosmetic Co., Inc.,
142 F.2d 536 (2d Cir. 1944). 1,4

Hecker H-O Co. v. Holland Food Corp.,
36 F.2d 767 (2d Cir. 1929) 5

King v. Innovation Books,
976 F.2d 824 (2d Cir. 1992) 4

Steele v. Bulova Watch Co.,
344 U.S. 280 (1952) 1,3

Sterling Drug, Inc. v. Bayer AG,
14 F.3d 733 (2d Cir. 1994) 4,8,9

Vanity Fair Mills v. T. Eaton Co.,
234 F.2d 633, (2d Cir. 1956) 4,9

I. SUMMARY OF THE REPLY ARGUMENT

Respondent, Aerogroup, appears to take the position that there is more than one standard to be applied in determining whether to extend the Lanham Act extraterritorially, one being set forth in *Steele v. Bulova Watch Co.*, 344 U.S. 280 (1952), the other being set forth in *George W. Luft Co., Inc., v. Zande Cosmetic Co., Inc.*, 142 F.2d 536 (2d Cir. 1944). According to Aerogroup, *Luft* requires no substantial effect on U.S. commerce, while neither case requires proof of any Lanham Act harm. Judge Gajarsa's dissent, which clearly identifies the errors in the decision of the court below, is completely ignored.

Aerogroup's Opposition does nothing more than further confuse the already confused state of the law. No court has employed two different sets of criteria in determining whether to apply the Lanham Act extraterritorially. Despite the conflict in the Circuits, all have looked to *Bulova*, which requires an effect on commerce resulting from infringing activity. Unlike *Bulova*, however, some courts have not required substantial Lanham Act harm. The case at bar is one in which Aerogroup has suffered *no* Lanham Act harm resulting from Petitioner Marlboro's extraterritorial activities. It is also one in which the evidence of the effect on U.S. commerce has been deemed "equivocal", yet at the same time "substantial". Finally, it is one in which a lawsuit is currently pending in Canada on the same trademark and same accused products to determine whether Aerogroup's trademark rights have been infringed in that country.

In its opposition papers, Aerogroup fails to address the fact that no Second Circuit court has heretofore found the requisite substantial effect on commerce absent a showing of such traditional factors as the diversion of sales, manufacturing, packaging or labeling in this country, or presence of goods in the U.S. Moreover, Aerogroup cites no case in which the general use of the instrumentalities of commerce have provided grounds to invoke the Lanham Act. As expressed by Judge Gajarsa, the mere use of the faxes, mails, telephones and attending a trade show is not the type of activity which triggers the extraterritorial application of the Lanham Act. *Aerogroup Int'l, Ltd. v. Marlboro Footworks*, 1998 U.S. App. LEXIS 7733 * 16-17 (2d Cir. 1998) (Gajarsa, dissenting).

Aerogroup's recitation of Marlboro's U.S. activities which lead to the creation of the trade dress found to be infringing misses the point. Virtually all of Marlboro's U.S. activities are related to its U.S. business. Moreover, none of these activities has led to any sales in Canada that caused confusion of U.S. consumers, harm to Aerogroup's reputation in the U.S., or even a marginal effect on U.S. commerce.[1] Aerogroup's Opposition fails to explain why the Lanham Act should be implicated under such circumstances. Aerogroup also fails to provide any cogent reason why Bata's sale of the same accused footwear in Canada can be found to have had no substantial effect on commerce with respect to Bata and a substantial effect with respect to Marlboro. As recognized by

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[1]Marlboro's Canadian sales of $43,757 (commissions) and $500,000 (retail) can hardly be said to have had a significant impact even on Aerogroup with its retail sales of $500 million in the U.S. and $100 million dollars in Canada (Opp. at 2), let alone to have had a *substantial* effect on U.S. commerce.

Judge Gajarsa, Marlboro's U.S. citizenship was erroneously brought into the court's analysis of this *Vanity Fair* factor. *Aerogroup*, 1998 U.S. App. LEXIS 7733 at *16. This is not a mere factual error, but rather a clear legal error memorialized in the published District Court decision which presently stands as affirmed by the majority opinion of the Federal Circuit.

Aerogroup mischaracterizes Marlboro's activities. Its implication that the "knock off" business is in some way illicit is belied by the record which shows that such practice is accepted in the industry and that Aerogroup itself knocks off designer and brand name shoes. Furthermore, only a small portion of the footwear accused by Aerogroup was found to be infringing. Most of Aerogroup's case was baseless and accordingly dismissed.

II. REPLY ARGUMENT

A. *Luft* Does Not Provide an Alternative Ground to Invoke the Extraterritorial Application of the Lanham Act

In its attempt to distract the Court from the relevant facts and issues, Aerogroup invents *alternative* grounds upon which foreign application of the Lanham Act is said to be predicated. Its position that *Luft* provides alternative grounds to *Bulova* and *Vanity Fair* is unsupported by the law, and misconstrues the majority decision of the Federal Circuit in the case at bar. In *Bulova,* the Court merely cited *Luft* to demonstrate that "under similar circumstances", courts of the United States have awarded relief to trademark holders before the enactment of the Lanham Act. *Bulova*, 344 U.S. at 286-287. *Luft* is consistent with *Bulova* as both require a substantial

effect on U.S. commerce based upon significant U.S. activity. Furthermore, the Second Circuit in *Vanity Fair* relied exclusively on *Bulova* for its analysis of whether the Lanham Act could be applied extraterritorially.[2] *Vanity Fair Mills v. T. Eaton Co.*, 234 F.2d 633, 641-643 (2d Cir 1956). Most Second Circuit decisions on this issue do not even cite *Luft* when examining the question of extraterritorial application of the Lanham Act. *See, e.g.*, *Atlantic Richfield Co. v. Arco Globus Int'l Co., Inc.*, 47 U.S.P.Q. 2d 1529 (2d Cir. 1998), *Fundamental Too, Ltd. v. Gemmy Indus. Corp.*, 42 U.S.P.Q. 2d 1348 (2d Cir. 1996), *Sterling Drug, Inc. v. Bayer AG*, 14 F.3d 733 (2d Cir. 1994) and *King v. Innovation Books*, 976 F.2d 824 (2d Cir. 1992).

Contrary to Aerogroup's assertions (Opp. at 9 and 18 n. 5), *Luft* does not stand for the proposition that United States trademark law can be invoked extraterritorially any time a defendant has not established superior rights in a foreign nation. Rather, *Luft* establishes three categories in analyzing extraterritorial application of the U.S. trademark laws: a) countries where both parties are doing business and the defendant has established a right by local law to use the mark in question; b) countries where both parties are doing business and the defendant has not established such right; and c) countries where the defendant is doing business and the plaintiff has not proved that it has ever done or is likely to do business. *Luft*, 142 F.2d at 540.

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[2] *Vanity Fair* only cited *Luft* to support its finding that remaining state law claims should not be sustained under the doctrine of *forum non conveniens*. *Vanity Fair*, 234 F.2d at 645-647.

The *Luft* court unambiguously stated that for activities falling within category (b), *Hecker H-O Co. v. Holland Food Corp.*, 36 F.2d 767 (2d Cir. 1929) controls. *Luft*, 142 F.2d at 541. In *Hecker*, the court found that substantial activity had indeed occurred in the United States. *Hecker*, 36 F.2d at 767-768. The defendant purchased cereal products from manufacturers in the United States, packaged the goods and applied the infringing labels on the containers in the United States and shipped the accused goods from American ports to various foreign countries. *Id.* at 767. Clearly, in *Hecker* there was a substantial effect on United States commerce under Second Circuit law. To the extent, if any, that the District Court and the Federal Circuit relied on *Luft* in the manner suggested by Aerogroup, they are clearly erroneous since the present case lacks anything close to the extensive U.S. activities found in *Hecker*. Any interpretation of *Luft* as permitting extraterritorial application of the Lanham Act without the finding of a substantial effect on U.S. commerce is inconsistent with *Bulova* and *Vanity Fair*.[3] Aerogroup's position relating to *Luft* is baseless.

B. The Error of the Courts below Constitutes Legal Error Under Second Circuit Law

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[3]The Second Circuit has never applied the Lanham Act to extraterritorial conduct without the finding of a substantial effect on commerce. *Atlantic Richfield*, 47 U.S.P.Q. 2d at 1531 n.4. Contrary to Aerogroup's assertions, it is irrelevant whether a party concedes the issue of substantial effect on commerce or if a court makes the determination that such effect does not exist. In any case, the failure to establish this factor is fatal to a plaintiff's attempt to extend the Lanham Act to activities abroad.

Aerogroup attempts to convince this court that this case merely presents a disagreement of the factual findings of the court below. Its papers trivialize the legal issues presented and the dissent of Judge Gajarsa who found significant legal error with respect to the District Court's decision. Furthermore, Aerogroup's contention that the determination of a substantial effect on commerce and a conflict with foreign laws are factual questions is unsupported by the law. The Second Circuit has framed these issues as a question of law. *See Fundamental Too, Ltd. v. Gemmy Indus. Corp.*, 42 U.S.P.Q. 2d 1358.[4]

1. The Federal Circuit Erred as a Matter of Law in Determining the Issue of Substantial Effect on Commerce

The underlying facts of this case are set forth in the District Court's decision and are not in dispute. No infringing goods have re-entered the United States. No confusion of U.S. consumers or injury to goodwill and reputation have resulted from Marlboro's sales to Canadian retailers. No infringing goods were manufactured or shipped through the United States nor were any infringing labels affixed in the United States. As Judge Gajarsa stated:

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[4]In taking an issue on appeal which was not raised at the trial court, the Second Circuit stated that this unusual practice would be appropriate "when the party raises new contentions involving *only questions of law*, and no need exists for additional fact finding." *Fundamental Too*, 42 U.S.P.Q.2d at 1358 (emphasis added). Declaring that the "resolution of this issue requires no additional fact finding", the court went on to find that based on the facts of the case there was a substantial effect on commerce and no conflict with foreign law. *Id.*

> None of the above was shown by Aerogroup in the case at bar. Marlboro was not found to have manufactured, shipped, packaged, fixed labels, imported, exported or assembled the infringing goods within U.S. borders. I see no reason to conclude that Marlboro's minimal conduct within the United States rises to the level of a 'substantial effect.'

Aerogroup, 1998 U.S. App. LEXIS 7733 *at 17 (dissent of Gajarsa).

Marlboro's status as a U.S. citizen was considered the most important factor by the District Court, and clearly influenced its approach. There is no other way the court could have concluded that Marlboro's activities had a substantial effect on U.S. Commerce while Bata's activities did not. The affirmance of the District Court's decision lowers the standard for finding a substantial effect on commerce to such a degree such that it will ensure that "[n]early any corporation found to be a U.S. citizen meets this standard." *Aerogroup*, 1998 U.S. App. LEXIS 7733 at * 16 (dissent of Gajarsa).

2. Legal Error Occurred by the Failure to FindNo Conflict with Foreign Law

Aerogroup essentially ignores the failure of the District Court to conclude that there is no conflict with Canadian law with respect to Marlboro. Judge Gajarsa concluded that

> the district court ... failed to properly analyze and weigh this *Vanity Fair Mills* factor in

> support of applying the Lanham Act extraterritorially since it did not actually reach a conclusion on this issue.

Aerogroup, 1998 U.S. App. LEXIS 7733 at * 12 (citations omitted).

Furthermore, in the pending Canadian litigation Bata may prevail, and be found to have the legal right in Canada to sell the exact same footwear that Marlboro has been prohibited from supplying. The potential of such a conflict is created by the decisions of the courts below.

C. The Intent of the Lanham Act Requires That at Least Some of the Effects Considered Include Harms Prohibited under the Act

Aerogroup strenuously argues that when determining whether to apply the Lanham Act to activities abroad, it "is irrelevant whether the infringer's foreign activities have 'trademark impairing effects' in this country." (Opp. at 12). It does not contend that it suffered trademark impairing effects in the U.S., nor did it indeed suffer such effects. Such a reading of the law, however, is contrary to the well-established principle that United States trademark rights are national, rather than being international in scope. Moreover, neither this Court nor the courts of the Second Circuit have heretofore espoused such a view. To the contrary, the Second Circuit has identified the importance of considering Lanham Act type harms when determining the issue of extraterritorial application of the Act. *Sterling Drug*, 14 F.3d at 746.

Aerogroup's rationale for permitting the consideration of any contact with the United States is based upon a distinction between a jurisdictional and substantive requirement. (Opp. at 12).[5] However, such a focus improperly frames the issue. The question is not what Congress *can* do under the Constitution, but rather what Congress *intended* to be done under the Lanham Act.[6] The intent and goals of the Lanham Act are to prevent confusion of U.S. consumers and protect *national* trademark rights. *Sterling Drug*, 14 F.3d at 746. Consideration of trademark type harms in the U.S. ensures that these goals are achieved without overstepping the bounds of Congress' intent or the laws of other nations.

If the decisions below stand, U.S. companies will be forced to consult U.S. trademark counsel in addition to foreign counsel. Even where not one U.S. citizen will ever be likely to see the foreign mark. It will no longer be sufficient to ensure that a mark may be lawfully used in a foreign country when a possibly conflicting mark is used in the United States. In the present case, Marlboro sold footwear to a Canadian corporation, Bata, which owned the word mark AIR SUPPLY in Canada. Bata's Canadian counsel believed it had the right to sell the footwear under Canadian law. However, Bata's sales in Canada have been found to be infringing *under U.S. law.*

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[5]The courts have stated that the overall issue of whether to apply the Act abroad is a question of whether a claim arises under the Lanham Act which would be a substantive inquiry. *See Fogel v. Chestnutt*, 668 F.2d 100, 105-107 (2d Cir. 1981).

[6]The Second Circuit in *Vanity Fair* realized that Congress did not intend to legislate to the full extent of its constitutional authority and limited the application of the Lanham Act accordingly. *Vanity Fair*, 234 F.2d at 642.

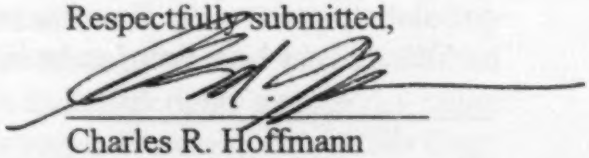
Therefore, clearance to use a mark would require a multi-jurisdictional investigation. Such an absurd result cannot have been intended by Congress, yet it is exactly the type of scenario which occurs when application of the Lanham Act to foreign activities is expanded beyond a review of Lanham Act type harms in the U.S.

Not one of Marlboro's U.S. activities in connection with its Canadian sales resulted in the confusion of U.S. consumers or harm to Aerogroup's reputation in the U.S. Aerogroup's response fails to explain why the Lanham Act should be invoked under such circumstances. Moreover, there simply is no explanation why the Lanham Act should be invoked in the case at bar.

III. CONCLUSION

For the forgoing reasons and the reasons set forth in Marlboro's Petition, granting of Marlboro's Petition with respect to each of the questions presented for review is respectfully requested.

Respectfully submitted,



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